

STATE OF SOUTH CAROLINA

(Caption of Case)
IN RE:

Application of Carolina Water Service,
Inc. for adjustment of rates and charges
for the provision of water and
sewer service.

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

COVER SHEET

DOCKET

NUMBER: 2006 - 92 - W/S

(Please type or print)

Submitted by: John M.S. Hoefer

SC Bar Number: _____

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NOTE: The cover sheet and information contained herein neither replaces nor supplements the filing and service of pleadings or other papers as required by law. This form is required for use by the Public Service Commission of South Carolina for the purpose of docketing and must be filled out completely.

DOCKETING INFORMATION (Check all that apply)

☐ Emergency Relief demanded in petition ☐ Request for item to be placed on Commission's Agenda expeditiously

☐ Other: _____

INDUSTRY (Check one)	NATURE OF ACTION (Check all that apply)		
<input type="checkbox"/> Electric	<input type="checkbox"/> Affidavit	<input type="checkbox"/> Letter	<input type="checkbox"/> Request
<input type="checkbox"/> Electric/Gas	<input type="checkbox"/> Agreement	<input type="checkbox"/> Memorandum	<input type="checkbox"/> Request for Certificatio
<input type="checkbox"/> Electric/Telecommunications	<input type="checkbox"/> Answer	<input type="checkbox"/> Motion	<input type="checkbox"/> Request for Investigation
<input type="checkbox"/> Electric/Water	<input type="checkbox"/> Appellate Review	<input type="checkbox"/> Objection	<input type="checkbox"/> Resale Agreement
<input type="checkbox"/> Electric/Water/Telecom.	<input type="checkbox"/> Application	<input type="checkbox"/> Petition	<input type="checkbox"/> Resale Amendment
<input type="checkbox"/> Electric/Water/Sewer	<input type="checkbox"/> Brief	<input type="checkbox"/> Petition for Reconsideration	<input type="checkbox"/> Reservation Letter
<input type="checkbox"/> Gas	<input type="checkbox"/> Certificate	<input type="checkbox"/> Petition for Rulemaking	<input type="checkbox"/> Response
<input type="checkbox"/> Railroad	<input type="checkbox"/> Comments	<input type="checkbox"/> Petition for Rule to Show Cause	<input type="checkbox"/> Response to Discovery
<input type="checkbox"/> Sewer	<input type="checkbox"/> Complaint	<input type="checkbox"/> Petition to Intervene	<input type="checkbox"/> Return to Petition
<input type="checkbox"/> Telecommunications	<input type="checkbox"/> Consent Order	<input type="checkbox"/> Petition to Intervene Out of Time	<input type="checkbox"/> Stipulation
<input type="checkbox"/> Transportation	<input type="checkbox"/> Discovery	<input type="checkbox"/> Prefiled Testimony	<input type="checkbox"/> Subpoena
<input type="checkbox"/> Water	<input type="checkbox"/> Exhibit	<input type="checkbox"/> Promotion	<input type="checkbox"/> Tariff
<input checked="" type="checkbox"/> Water/Sewer	<input type="checkbox"/> Expedited Consideration	<input type="checkbox"/> Proposed Order	<input checked="" type="checkbox"/> Other:
<input type="checkbox"/> Administrative Matter	<input type="checkbox"/> Interconnection Agreement	<input type="checkbox"/> Protest	
<input type="checkbox"/> Other:	<input type="checkbox"/> Interconnection Amendment	<input type="checkbox"/> Publisher's Affidavit	
	<input type="checkbox"/> Late-Filed Exhibit	<input type="checkbox"/> Report	

WILLOUGHBY & HOEFER, P.A.

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November 25, 2008

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VIA HAND DELIVERY

The Honorable Charles L.A. Terreni
Chief Clerk / Administrator
Public Service Commission of South Carolina
Synergy Business Park
101 Executive Center Drive
Columbia, South Carolina 29210-8411

RECEIVED
2008 NOV 25 11:15
SOUTH CAROLINA
PUBLIC SERVICE
COMMISSION

RE: Application of Carolina Water Service, Inc. for adjustment of rates and charges for the provision of water and sewer service; Docket 2006-92-WS

Dear Mr. Terreni:

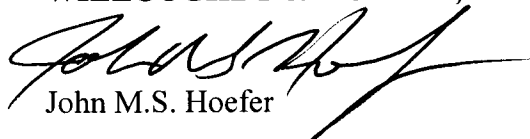
Enclosed for filing please find the original and ten (10) copies of the Conditional Rebuttal Testimony on Remand of Steven M. Lubertozzi¹ and two (2) supporting exhibits in the above-referenced matter. This testimony and these exhibits are being filed conditionally pending the Commission's determination with respect to the objection made by the Applicant at the October 1, 2008, hearing in this matter.

I would appreciate your acknowledging receipt of this document by date-stamping the extra copy that is enclosed and returning it to me via our courier. By copy of this letter, I am serving counsel of record for the Office of Regulatory Staff with a copy of the document and enclose my certificate to that effect.

If you have any questions, or need additional information, please do not hesitate to contact me. With best regards, I am

Respectfully,

WILLOUGHBY & HOEFER, P.A.


John M.S. Hoefer

Enclosure

cc: Jeffrey Nelson, Esquire (via first-class mail with enclosures)
Nanette S. Edwards, Esquire (via first-class mail with enclosures)

¹ Please note that a copy of Mr. Lubertozzi's verification of his testimony is being submitted herewith and that the original will be filed later.

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2006-92-W/S**

RECEIVED
PUBLIC SERVICE
COMMISSION
SOUTH CAROLINA

IN RE:)

Application of Carolina Water Service,
Inc. for adjustment of rates and charges
for the provision of water and
sewer service.)

**CONDITIONAL REBUTTAL
TESTIMONY ON REMAND
OF
STEVEN M. LUBERTOZZI**

1 **Q. ARE YOU THE SAME STEVEN M. LUBERTOZZI THAT HAS GIVEN**
2 **TESTIMONY IN THE REMAND HEARING HELD IN THIS CASE ON**
3 **OCTOBER 1, 2008?**

4 **A. Yes, I am.**
5

6 **Q. WHAT IS THE PURPOSE OF YOUR CONDITIONAL REBUTTAL**
7 **TESTIMONY ON REMAND IN THIS PROCEEDING, MR. LUBERTOZZI?**

8 **A. The purpose of my conditional rebuttal testimony on remand is to address the**
9 **testimony of Mr. Don Long.**
10

11 **Q. WHY IS THIS TESTIMONY BEING FILED AS "CONDITIONAL" REBUTTAL**
12 **TESTIMONY ON REMAND?**

13 **A. At the remand hearing, the Company objected to the Commission's receipt and**
14 **consideration of evidence by any person or entity other than the Company and the Office**
15 **of Regulatory Staff based upon the Supreme Court's order remanding this matter to the**
16 **Commission. I understand that the Commission has taken that objection under**
17 **advisement. Should the Commission sustain the Company's objection, then further**

1 evidence by the Company would not be needed. On the other hand, should the
2 Commission overrule the Company's objection, the Company believes it would be
3 appropriate for the Commission to consider evidence offered in rebuttal to Mr. Long's
4 testimony.

5
6 **Q. MR. LUBERTOZZI, ARE MR. LONG'S ESTIMATES OF THE COMPANY'S**
7 **RETURN ON RATE BASE FOR ITS YORK COUNTY SERVICE AREA**
8 **ACCURATE?**

9 **A.** No, they are not.

10
11 **Q. WOULD YOU PLEASE EXPLAIN WHY THEY ARE NOT ACCURATE?**

12 **A.** Yes. There are a variety of reasons for this. First, I would note that Mr. Long's
13 estimates of the return on rate base associated with the Riverhills Service Territory are
14 based upon information that is incomplete. The data required to accurately determine
15 such a return on rate base is not in the format necessary to perform the primary
16 calculations as well as the multitude of secondary calculations underpinning the primary
17 calculations and is not easily accessible, as I have previously testified. In order to
18 accurately determine the return on rate base for any one of the Company's service areas,
19 it would be necessary to perform an exhaustive analysis of each of the Company's service
20 areas, including a determination of the original cost basis of plant for each. Mr. Long has
21 performed no such analysis. Second, some of the inputs used in Mr. Long's very limited
22 analysis are meaningless to a determination of return on rate base – for the Company's
23 Riverhills Service Territory or any of its other service areas – without further information
24 and data. For example, he stated that he estimated that the Riverhills Service Territory
25 contains “less than 20% of the plant in service, but nearly 35% of the contributions in aid
26 of construction” and that these factors are “likely to produce a higher than average return
27 on rate base.” Mr. Long does not, however, state what he believes to be an “average
28 return on rate base” and I am unfamiliar with any standard by which a rate of return on
29 rate base might be determined to be “average.” Moreover, this statement assumes that

1 contributions in aid of construction require no operation, repair or maintenance expense.
2 They do, however, and Mr. Long's apparent assumption that contributions in aid of
3 construction are without cost to the Company causes his estimate of rate of return on rate
4 base to be overstated. Also, Mr. Long appears to have double counted a portion of the
5 increase in revenues arising from Docket No. 2004-357-WS. This is so because the
6 increase in revenues in that case went into effect in June of 2005 and therefore, more than
7 six months worth of the annual revenues from that increase were already included in the
8 Company's December, 2006, calculation of the estimated 8.00% return on rate base he
9 discussed later in his testimony. Thus, his assertion that the effect of the increased rates
10 in Docket No. 2004-357-WS results in a return of "over 40%" is simply inaccurate.
11 Furthermore, in calculating the effect of the increases in revenue arising out of Docket
12 No. 2004-357-WS and the increases proposed by the settlement agreement in this docket,
13 Mr. Long does not appear to have accounted for the corresponding expenses associated
14 with that revenue increase, including rate case expenses. This, too, would result in an
15 overstated rate of return on rate base and shows that his estimate of 58% is inaccurate.
16

17 **Q. DO YOU HAVE ANY OBSERVATIONS REGARDING MR. LONG'S INITIAL**
18 **ESTIMATE OF RETURN ON RATE BASE IN THIS MATTER?**

19 **A.** Yes. It is inconsistent with how he characterized them in his prior testimony
20 given to the Commission.
21

22 **Q. COULD YOU PLEASE ELABORATE ON THAT?**

23 **A.** Yes. In his testimony in 2006, Mr. Long told the Commission that he estimated
24 that the Company's return on rate base for its Riverhills Service Territory under rates
25 approved by the Commission in 2004 was 33.6%. However, in his October 1, 2008
26 testimony Mr. Long claimed that the return on rate base figure he estimated in 2006 was
27 only "in excess of 25%." No explanation of this discrepancy was provided in Mr. Long's
28 most recent testimony, but it raises a further question about the reliability of the
29 calculations Mr. Long has performed.

1
2 **Q. MR. LUBERTOZZI, WHAT COMMENT DO YOU HAVE REGARDING MR.**
3 **LONG'S CONTENTION THAT THE COMMISSION SHOULD CONSIDER THE**
4 **EFFECT OF THE SETTLEMENT ON A POTENTIAL PURCHASE OF THE**
5 **SYSTEMS IN THE COMPANY'S RIVERHILLS SERVICE TERRITORY BY**
6 **YORK COUNTY?**

7 **A.** I would first like to say that I am not aware of any discussions taking place as Mr.
8 Long asserts. In 2006, York County made inquiry about a potential acquisition of the
9 Company's systems in York County. Since its initial inquiry, York County has on
10 occasion requested certain information from CWS and the latest such request was made
11 in August of 2008. However, the Company has had no discussions with York County
12 since that request and has not received an offer from York County. Second, Mr. Long
13 assumes that an increase in revenue will translate into increased net income from the
14 Company's operations in York County and that the Company's net income will be the
15 only factor York County considers. Both of these assumptions are potentially incorrect.
16 An increase in company-wide revenue does not necessarily translate into an equivalent
17 increase in net income from operations in the Riverhills Service Territory. Should the
18 Company experience an increase in either capital or operational expenditures in York
19 County, those would offset any increase in revenue, and not necessarily proportionally to
20 the increased revenue. One circumstance where such a disproportional impact could be
21 realized is if CWS is required to construct an elevated water storage facility to serve the
22 Riverhills Service Territory to ensure adequate future capacity as York County has
23 asserted. While CWS has disputed York County's contention in this regard, if CWS were
24 required to make this capital improvement, net income associated with the Riverhills
25 Service Territory would decrease under Mr. Long's analysis. Furthermore, and as York
26 County officials testified to the Commission in the Company's 2004 rate case, the income
27 approach to valuation is only one means by which fair market value may be determined.
28 I have attached as SML-Conditional Rebuttal Exhibit 1 an excerpt from the transcript of
29 the hearing in which a York County official acknowledged that valuation could also be

1 based upon a replacement cost of the systems less depreciation. Other testimony of the
2 same witness makes clear that York County had concerns about its ability to afford the
3 value of the CWS systems in that jurisdiction well before the instant proceeding was
4 initiated. Finally, regardless of Mr. Long's incorrect speculation, I would submit that the
5 question of what a potential purchaser may or may not in the future pay to acquire the
6 systems is irrelevant to a determination of just and reasonable rates.
7

8 **Q. DO YOU TAKE ISSUE WITH MR. LONG'S CHARACTERIZATION OF THE**
9 **NATURE OF THE INFORMATION RELATING TO THE RIVERHILLS**
10 **SERVICE TERRITORY PROVIDED BY THE COMPANY TO ORS IN**
11 **DECEMBER OF 2006?**

12 **A.** Yes, I do. It leaves the impression that the Company stated that it would provide
13 to ORS the data which former State Representative Ralph Norman requested and then did
14 not. The information provided to ORS has never been represented as providing the data
15 requested by Mr. Norman.
16

17 **Q. WOULD YOU PLEASE ELABORATE ON YOUR LAST ANSWER?**

18 **A.** Yes. The data requested was a determination of the rate of return on rate base for
19 the Company's water and sewer systems serving the Riverhills Service Territory. As I
20 have previously stated, the only way to determine that figure would be for the Company
21 to undertake an exhaustive and expensive analysis of each of the Company's service
22 areas, including a determination of the original cost basis of plant in each. We have not
23 done that and did not perform such an analysis in preparing the materials provided to
24 ORS in December 2006. Mr. Long testified that the Company sent ORS a note in
25 October of 2006 stating that CWS "would comply with the request." Mr. Long did not,
26 however, fully describe this correspondence in his testimony. I am attaching as SML-
27 Conditional Rebuttal Exhibit 2 a copy of that correspondence in which our counsel very
28 clearly stated that the information we would be developing would include allocations and
29 estimates in some instances. Unless we undertake the comprehensive and expensive

1 analysis at customer expense for all Company systems that I have mentioned, no data
2 regarding actual return on rate base for any one system is possible and all that we can
3 provide is estimates which will by necessity include allocations.
4

5 **Q. IS MR. LONG CORRECT IN HIS STATEMENT THAT THE INFORMATION**
6 **PROVIDED TO ORS BY THE COMPANY IN DECEMBER OF 2006 ASSIGNS**
7 **68% OF THE COMPANY'S STATEWIDE PERSONNEL EXPENSE TO THE**
8 **RIVERHILLS SERVICE TERRITORY?**

9 **A.** No, he is not. It appears that Mr. Long has compared some portion of the per
10 book personnel expenses claimed in the Company's rate application in this case, which
11 were based on a test year ending September 30, 2005, with the estimated personnel
12 expenses contained in the information we provided to ORS in December of 2006, which
13 were based on the period ending December 31, 2005. The total, unadjusted personnel
14 expenses claimed by the Company for the test period in this case were \$1,186,483. The
15 total personnel expenses estimated (again based on certain allocations) to be associated
16 with the Riverhills Service Territory for the year ending December 31, 2005, and
17 reflected in the information provided to ORS in December of 2006, was \$674,265. Thus,
18 the percentage of these expenses assigned to the Riverhills Service Territory would be
19 56.83%, even assuming that this comparison was appropriate.
20

21 **Q. ARE THERE REASONS WHY MR. LONG'S COMPARISON IS NOT**
22 **APPROPRIATE?**

23 **A.** Yes. First, the difference in the accounting periods involved makes the
24 comparison inapt as it overlooks changes in personnel expenses for the fiscal quarter after
25 the test year. Second, and although it is unclear from his testimony, Mr. Long's
26 comparison appears to assume that company wide personnel expenses should be
27 allocated to the Riverhills Service Territory based upon some unknown factor. However,
28 if you are attempting to assign expenses to a given service area for purposes of
29 determining its cost of service alone, an allocation of direct expenses associated with the

1 billing, customer service, maintenance, operation and repair work performed by
2 Company personnel on all of the Company systems would not be appropriate. Instead,
3 you would need to determine the amount of time spent by the Company's employees
4 working on those matters in the specific systems. Because we do not track employee
5 time by service territory, we cannot, without the expenditure of significant additional
6 time and expense, determine the precise amount of personnel expense associated with the
7 Riverhills Service Territory. Therefore, in the information we submitted to ORS in
8 December of 2006, we estimated that 56.83% of the Company's billing, customer
9 service, operation, maintenance and repair work was related to the Riverhills Service
10 Territory.

11
12 **Q. CAN YOU PLEASE EXPLAIN WHY THE RIVERHILLS SERVICE**
13 **TERRITORY WOULD HAVE A PERCENTAGE OF PERSONNEL EXPENSE**
14 **TO TOTAL THAT WOULD BE GREATER THAN THE PERCENTAGE OF**
15 **PLANT TO TOTAL?**

16 **A.** Yes. As we have stated, nearly half of the Company's sewer lift stations are
17 situated in the Riverhills Service Territory. This means that far more time is spent
18 working on lift stations in this sewer system than in any other sewer system we operate.
19 Lift stations contain more working parts and components than any other aspect of a sewer
20 utility, with perhaps the exception of a treatment plant, and are therefore more labor
21 intensive. The rolling topography in this part of the state also means that there will be
22 more linear feet of utility mains and lines in these systems than in other Company
23 systems in the state. This means more routine maintenance and repairs. Given the
24 topography, these maintenance and repair jobs can be more difficult than in other areas of
25 the state, and thus more time consuming. So, for those reasons we believe our estimate to
26 be reasonable, but certainly not as precise as one would receive from a comprehensive
27 audit.

1 **Q. MR. LONG ASSERTS THAT THE CUSTOMERS IN THE RIVERHILLS**
2 **SERVICE TERRITORY SIGNIFICANTLY AND UNJUSTIFIABLY SUBSIDIZE**
3 **THE REMAINDER OF THE COMPANY’S SYSTEMS IN SOUTH CAROLINA;**
4 **DO YOU AGREE WITH THAT ASSERTION?**

5 **A.** No, I do not. As I have already stated, many of the inputs and assumptions used
6 in Mr. Long’s estimate of a return on rate base for the Riverhills Service Territory are
7 incorrect. More importantly, even assuming that there is some level of subsidy among
8 the Company’s systems, Mr. Long has not demonstrated that it is significant or
9 unjustifiable or that a subsidy does not, in fact, flow to River Hills. As we have pointed
10 out previously, the customers in the River Hills community receive significant discounts
11 in their rates because they pay to CWS a distribution and collection rate that is
12 approximately 42.7% less than CWS’s full service rate for water and approximately
13 27.4% less for sewer services. Further, he fails to consider in his unsupported assertions
14 that the Company must pay all costs required to operate plant and facilities as well as
15 maintain and replace contributed plant.

16 Moreover, Mr. Long also states that the “relative newness” of this nearly 40 year
17 old system serving the River Hills Subdivision indicates to him that it is “likely to
18 produce a higher than average return on rate base.” Many of the CWS systems are aged
19 systems that have been subjected to depreciation over time and that require significant
20 levels of attention and maintenance, including the system serving River Hills. Thus,
21 relative age, whether newer or older, does not mean that a community is paying more or
22 less than its reasonable share of the cost of operating the total system plus contributing
23 reasonably to the utility’s earnings. Operating expenses must also be recovered through
24 rates along with revenue needed to provide a fair return on the utility’s investment in
25 plant. In sum, there is simply no basis in this record to support Mr. Long’s conclusion
26 about newness and above average returns.

27 Mr. Long then makes an improbable leap to state that “these factors in
28 combination lead us to believe” that the return from the Lake Wylie system “significantly
29 and unjustifiably subsidizes” the rest of CWS systems in South Carolina. As I have

1 previously stated in my other testimony filed in this docket, all CWS service territories
2 are part of a uniform rate system. Consistent with Commission policy, none are
3 accounted for separately. Importantly, in a uniform rate environment there will always
4 be some level of subsidy flowing from one group of customers to another. However, as
5 capital improvements are made to systems serving different neighborhoods, the flow of a
6 subsidy will shift, benefiting some neighborhoods today and different ones over time.

7 It is also true that within neighborhoods there will be customers who, through
8 uniform rates, subsidize other customers in the same neighborhood. Yet uniform rate
9 structures are commonly used in South Carolina and other states in setting rates.
10 Uniform rates promote rate stability, guard against rate spikes for customers who are
11 located at the end of a service line or in a territory where plant requires replacement, and
12 generally enhance the ability of a group of customers to meet the ever increasing expense
13 of environmental compliance and service improvements at reasonable rates.

14 Finally, while subsidies always exist within a uniform rate system, Mr. Long has
15 not and cannot demonstrate that a subsidy today flows from the River Hills Subdivision
16 to other neighborhoods within CWS's system, or that there have not been periods over
17 time (and perhaps currently) in which River Hills has been (and perhaps currently) a
18 beneficiary of subsidies flowing its direction. To the extent there are subsidies, Mr. Long
19 has not and cannot demonstrate that such subsidies are anything other than reasonable,
20 fully justified and consistent with Commission practice in setting uniform rates.

21
22 **Q. DOES THIS CONCLUDE YOUR CONDITIONAL REBUTTAL TESTIMONY ON**
23 **REMAND?**

24 **A.** Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
COLUMBIA, SOUTH CAROLINA**
[Hearing Held in Lake Wylie, SC]

HEARING #10687

APRIL 26, 2005

COPY
7:00 P.M.

DOCKET NO. 2004-357-WS: CAROLINA WATER SERVICE – *Application for Adjustment of Rates and Charges and Modification of Certain Terms and Conditions for the Provision of Water and Sewer Service.*

HEARING BEFORE: CHAIRMAN Randy MITCHELL, Presiding; VICE CHAIRMAN G. O'Neal HAMILTON, and COMMISSIONERS John E. "Butch" HOWARD, David A. WRIGHT, Elizabeth B. Lib FLEMING, Mignon L. CLYBURN, and C. Robert MOSELEY.

Legal Advisor to Commissioners: Joseph M. Melchers.

Commission Technical Advisor: James B. Spearman, Ph.D.

STAFF: Jocelyn G. Boyd, Deputy Clerk; Douglas Pratt, Advisory Staff; William O. Richardson, Engineer; and MaryJane Cooper, Court Reporter.

APPEARANCES: John M.S. Hoefer, Esq., representing CAROLINA WATER SERVICE, Applicant.

Florence P. Belser, Esq., and Lessie Hammonds, Esq., representing THE OFFICE OF REGULATORY STAFF, Intervenor.

**TRANSCRIPT OF TESTIMONY AND PROCEEDINGS
VOLUME 3 OF 6**

1 Q Thank you, sir.

2
3 CHAIRMAN MITCHELL: Any other
4 questions?

5 EXAMINATION BY COMMISSIONER WRIGHT:

6 Q I've got a couple of questions, and I'm not familiar with
7 York County, how York County operates, so some of the
8 questions [INAUDIBLE] Have you ever approached Carolina
9 Water Service to hook in, providing water and sewer
10 countywide? Has that ever been discussed or studied
11 before?

12 A Yes, sir. York County has had discussions with Carolina
13 Water Service a number of years ago, probably in the late
14 '90s, regarding a potential acquisition of this system as
15 well as another private system, TK Water System, and by
16 this [INAUDIBLE] we determined that there were too many
17 unknowns, that the methods of placing values on utility
18 systems by the courts, should we have to condemn, we put
19 accounting and potential customers at risk in paying a
20 higher price than we considered fair market value for the
21 system. At that time, we just simply did not have the
22 resources to assume that risk.

23 Q Is that something that you are going to be looking
24 prospectively for?

25 A That would certainly [INAUDIBLE] Mr. Johnson and my bosses,
I think we would run into the same dilemma as to what

1 value would be placed on the system as I understand that
2 there are a number of different methods of valuing to
3 those systems. One might be the income approach. One
4 might be the cost to construct, list depreciation.
5 Depending on the method one would choose to assign a
6 value to the system, it may or may not be worthwhile to
7 us. If we have to condemn, it may be that we would take
8 possession of the system, only to find out the value that
9 the court would assign at a later date, that that could
10 put us and our customers at great risk if the court were
11 to determine, for instance, the income approach was the
12 proper approach. The best answer I can give.

13 CHAIRMAN MITCHELL: Thank you, sir.

14 MR. MELCHERS: The next listed witness
15 is Tara Conner. If you would like to
16 testify tonight, would you please approach
17 the podium?

18 FROM THE AUDIENCE: [INAUDIBLE]

19 CHAIRMAN MITCHELL: Yes, sir.

20 MR. MELCHERS: The next listed witness
21 is Tom Kelly. If you'd like to testify
22 tonight, please approach the podium. Tom
23 Kelly?

24 [No response]

25 MR. MELCHERS: We'll strike that name

WILLOUGHBY & HOEFER, P.A.

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October 6, 2006

*ALSO ADMITTED IN TX
**ALSO ADMITTED IN VA

Nanette S. Edwards, Esquire
Deputy General Counsel
South Carolina Office of Regulatory Staff
Post Office Box 11623
Columbia, South Carolina 29211

RE: August 3, 2006 Request of Representative Ralph W. Norman

Dear Ms. Edwards:

This is in response to your letter of August 5, 2006, which I received on August 10, 2006.

First, please accept my apologies for the delay in responding. As you are aware, Carolina Water Service, Inc. ("CWS") and two affiliated entities have been involved in rate relief proceedings before the Public Service Commission which have been extremely time consuming for both company personnel and me. Additionally, company personnel have been involved in other regulatory proceedings throughout the country which have demanded their attention. Accordingly, it has been difficult for us to turn our collective attention to this matter.

Your statement of CWS's agreement to provide the Office of Regulatory Staff ("ORS") information regarding the company's Riverhills system and service area¹ is correct. The information will consist of the following with respect to CWS's Riverhills system and service area:

- 1) The services provided;
- 2) Balance sheet and operating revenue, operating expenses, net operating income and rate base rate of return in the identical format and detail contained in Schedules A, B and C of the CWS application in Docket No. 2006-92-WS;
- 3) customer types (water and/or sewer) and customer classes (residential/commercial etc) with the number of customers at the beginning and end of the test year and projected as shown in the application in Docket No. 2006-92-WS;

¹ CWS's Rivherills service area and system serves the Lake Wylie area. Although referenced in Representative Norman's letter as the "Lake Wylie Franchise District in York County," CWS has never referred to its Riverhills system or service area by that name.

Nanette S. Edwards, Esquire

October 6, 2006

Page 2

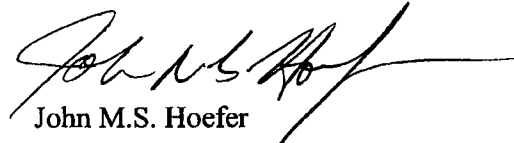
- 4) the dollar amount of the pass through charges for each customer type and class contained on an average customer's monthly bill;
- 5) the rate charged by any government body or agency or other entity for purchased water and/or sewer treatment, and
- 6) the dollar amount of expenditures for infrastructure improvement by CWS and the dollar amount of infrastructure improvements from Contributions in Aid of Construction for the past 5 year and the projected for the next 5 years.

As CWS has previously indicated to ORS, the preparation and compilation of the information sought by Representative Norman will require extensive research and effort, including allocations and estimates in some instances. CWS does not maintain information of this type in the ordinary course of its business as such is not required under the Uniform System of Accounts that has been adopted by the PSC in its regulations. See 26 S.C. Code Ann. Regs. RR. 103-517 and 103-719 (Supp.2005). Moreover, prior to and since the Supreme Court's decision in *August Kohn and Co., Inc. v. The Public Service Comm'n and Carolina Water Service, Inc.*, 290 S.C. 409, 313 S.E.2d 630 (1984), it has been CWS's understanding that it was entitled to account for its properties, revenues and expenses on a statewide basis for ratemaking purposes. And, in the numerous proceedings before the PSC involving CWS prior to and since that time, CWS has consistently maintained its books and records on a statewide basis. Furthermore, because Riverhills is one of the company's largest service areas in terms of geography and customer base, this exercise will be more difficult to complete than it would be for a smaller system and service area. Given the foregoing, CWS informs me that it will have this information compiled and ready to deliver on December 8, 2006.

Again, my apologies for the delay in responding to your letter. I appreciate very much your courtesy and cooperation in this matter. If you have any questions, or need additional information, please do not hesitate to contact me. With best regards, I am

Sincerely,

WILLOUGHBY & HOEFER, P.A.



John M.S. Hoefer

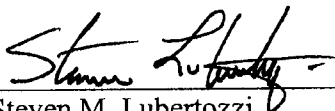
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STATE OF Illinois

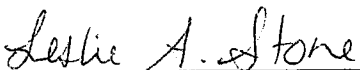
VERIFICATION

COUNTY OF Cook

PERSONALLY APPEARED BEFORE ME, Steven M. Lubertozi, Chief Financial Officer of Utilities, Inc., the parent of the applicant Carolina Water Service, Inc., who being duly sworn, deposes and states that he has read the foregoing Conditional Rebuttal Testimony on Remand and that all matters of fact contained therein are true of his own knowledge.


Steven M. Lubertozi

Sworn to before me this
24 day of November, 2008


Notary Public for _____ (SEAL)
My Commission Expires: 5-29-2011



BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2006-92-W/S

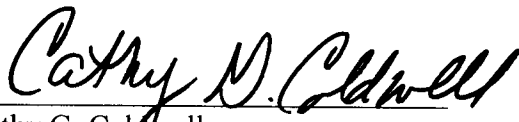
IN RE:

Application of Carolina Water Service,
Inc. for adjustment of rates and charges for
the provision of water and sewer service.

CERTIFICATE OF SERVICE

This is to certify that I have caused to be served this day one (1) copy of the **Conditional Rebuttal Testimony on Remand of Steven M. Lubertozi** and two (2) supporting exhibits by placing same in the care and custody of the United States Postal Service with first class postage affixed thereto and addressed as follows:

Jeffrey Nelson, Esquire
Nanette S. Edwards, Esquire
Office of Regulatory Staff
Post Office Box 11263
Columbia, South Carolina 29211


Cathy G. Caldwell

Columbia, South Carolina
This 25th day of November, 2008.

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SOUTH CAROLINA
PUBLIC SERVICE
COMMISSION